

Dominion Lending Centres Inc.

2023 Annual Management Discussion & Analysis





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This Management’s Discussion and Analysis (“MD&A”) contains important information about the results of operations of Dominion Lending Centres Inc. (“we”, “our”, or the “Corporation”) for the three months and year ended December 31, 2023, as well as information about our financial condition and future prospects. We recommend reading this MD&A, which has been prepared as of March 19, 2024, in conjunction with the 2023 audited annual consolidated financial statements (“financial statements”). These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). Unless otherwise indicated, all amounts are presented in Canadian dollars.

When preparing our MD&A, we consider the materiality of information. Information is considered material if (i) such information results in, or would reasonably be expected to result in, a significant change in the market price or value of our shares; (ii) there is a substantial likelihood that a reasonable investor would consider it important in making an investment decision; or (iii) it would significantly alter the total mix of information available to investors. We evaluate materiality with reference to all relevant circumstances, including potential market sensitivity.

The Corporation’s class A common shares (“Common Shares”) trade on the Toronto Stock Exchange (the “Exchange” or “TSX”) under the symbol “DLCG”. Continuous disclosure materials are available on our website at www.dlcg.ca, and on SEDAR+ at www.sedarplus.com.

The Corporation’s series 1 class B preferred shares (the “Preferred Shares”) are non-voting, non-convertible and are not publicly traded.

OVERVIEW OF OUR BUSINESS

The Corporation is a Canadian mortgage brokerage franchisor and mortgage broker data connectivity provider with operations across Canada.

At December 31, 2022, the Corporation had two operating segments: the Core Business Operations segment (the DLC Group), and the Non-Core Business Asset Management segment (public company costs, the Junior Credit Facility as defined herein, and the costs associated with the equity-accounted investment in Cape Communications International Ltd. (“Impact”)).

As of January 1, 2023, the Corporation has integrated these two segments into one, as the Corporation’s chief operating decision makers view the operations of the entity as a whole. This has resulted in a single operating segment as at December 31, 2023, representing the Corporation’s business of mortgage brokerage franchising and mortgage broker data connectivity services across Canada.

The DLC Group consists of the Corporation and its three main subsidiaries, being:

- MA Mortgage Architects Inc. (“MA”);
- MCC Mortgage Centre Canada Inc. (“MCC”); and,
- Newton Connectivity Systems Inc. (“Newton”).



The Corporation's ownership interests remain consistent with the ownership interest held as at December 31, 2022.

Mortgage Brokerage Franchising (DLC, MA and MCC)

The DLC Group is one of Canada's leading networks of mortgage professionals. The mortgage brokerage business of DLC is carried on under the DLC, MA, and MCC brands and has operations across Canada. The mortgage brokerage business's extensive network includes nearly 8,200 agents and \$56.5 billion in mortgage origination during the year ended December 31, 2023 (\$71.3 billion for the year ended December 31, 2022). The franchise model provides secure long-term relationships with mortgage professionals, and the Corporation provides training, technology, marketing, recruitment and operational support to its franchises and brokers.

Mortgage professionals provide services related to property purchases, mortgage refinancing and renewals, credit lines, and other borrowing needs. Mortgage professionals originate mortgages but do not themselves lend money. The Corporation has had significant historical franchise and agent growth achieved both organically and via ongoing recruiting efforts, with a strong pipeline for future growth opportunities.

Newton Connectivity Systems

Newton is a financial technology company which provides a secure all-in-one operating platform in Canada: Velocity. Velocity connects mortgage brokers to lenders and third parties. Newton provides end-to-end services to automate the entire mortgage application, approval, underwriting and funding process; and additional services to provide brokers with the management of their daily operations and access to data resources.

The operating platform provides services through various lender- and broker-facing products. Lender-facing products provide encrypted exchange networks to connect brokers with lenders and third parties. These include web-based services connecting brokers on Velocity to lenders and third-party suppliers, which allow for direct submission of mortgage information and supporting documents to lenders, and underwriting platforms to deliver digital credit applications from brokers to lenders. Broker-facing products provide deal-management tools and services, including the ability to automatically manage the brokers' revenue and distributions through Velocity; with additional services to match lender-verified products to a client's criteria and automation of the payroll process. Further, Newton provides services to third-party users through the Velocity platform, ranging from consumer credit reports to borrower banking information.

USE OF NON-IFRS FINANCIAL PERFORMANCE MEASURES

This MD&A includes certain non-IFRS financial measures which we use as supplemental indicators of our operating performance. These non-IFRS measures do not have any standardized meaning, and therefore are unlikely to be comparable to the calculation of similar measures used by other companies, and should not be considered in isolation or as a substitute for measures of performance prepared in accordance with IFRS. Non-IFRS measures are defined and reconciled to the most directly-comparable IFRS measure within the Non-IFRS Financial Performance Measures section of this MD&A. Non-IFRS financial performance measures used in our MD&A include adjusted earnings before interest, taxes, depreciation and amortization ("EBITDA"), adjusted EBITDA margin, adjusted net income, adjusted net earnings per share, and free cash flow attributable to common shareholders.

2023 FINANCIAL RESULTS

<i>(in thousands, except per share and KPIs)</i>	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	2023	2022	Change
Revenues	\$ 15,758	\$ 13,934	13%	\$ 62,517	\$ 70,720	-12%
Income from operations	3,914	1,554	152%	18,311	26,386	-31%
Adjusted EBITDA ⁽¹⁾	6,507	3,031	115%	24,420	32,058	-24%
Adjusted EBITDA margin	41%	22%	19%	39%	45%	-6%
Free cash flow attributable to common shareholders ⁽¹⁾	2,035	723	181%	7,459	12,164	-39%
Net (loss) income ⁽²⁾	(2,003)	(1,314)	-52%	64	12,286	-99%
Adjusted net income (loss) ⁽¹⁾	1,775	(175)	NMF ⁽³⁾	6,748	8,997	-25%
Diluted (loss) earnings per Common Share ⁽²⁾	(0.04)	(0.03)	-36%	-	0.25	-100%
Adjusted diluted earnings per Common Share ⁽¹⁾	0.04	(0.00)	NMF	0.14	0.18	-22%
Dividends declared per share	\$ 0.03	\$ 0.03	-%	\$ 0.12	\$ 0.09	33%
Key Performance Indicators ("KPIs")						
Funded mortgage volumes ⁽⁴⁾	14.2	14.0	1%	56.5	71.3	-21%
Number of franchises ⁽⁵⁾	542	539	1%	542	539	1%
Number of brokers ⁽⁵⁾	8,192	8,221	0%	8,192	8,221	0%
% of funded mortgage volumes submitted through Velocity ⁽⁶⁾	65%	57%	8%	63%	55%	8%

(1) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

(2) Net income for the three months and year ended December 31, 2023 includes \$1.9 million and \$9.9 million of non-cash finance expense on the Preferred Share liability, respectively (December 31, 2022 – \$1.9 million and \$2.4 million, respectively). The Preferred Share liability is revalued at the end of each reporting period to reflect our most recent outlook and forecast. Refer to the Preferred Shares section of this document.

(3) The percentage change is not a meaningful figure.

(4) Funded mortgage volumes are presented in billions and are a key performance indicator that allows us to measure performance against our operating strategy.

(5) The number of franchises and brokers are as at the respective period end date (not in thousands).

(6) Representing the percentage of the DLC Group's funded mortgage volumes that were submitted through Velocity.

The following are included in the above income from operations:

<i>(in thousands)</i>	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	2023	2022	Change
Direct costs	\$ 3,254	\$ 3,950	-18%	\$ 10,429	\$ 10,704	-3%
General and administrative expenses	7,388	7,244	2%	30,060	29,749	1%
Share-based payments expense (recovery)	263	215	22%	(70)	(104)	-33%
Depreciation and amortization	939	971	-3%	3,787	3,985	-5%
Operating expenses	\$ 11,844	\$ 12,380	-4%	\$ 44,206	\$ 44,334	-0%

Other (expense) income, included in net income includes:

<i>(in thousands)</i>	Three months ended December 31,			Year ended December 31,		
	2023	2022	Change	2023	2022	Change
Finance expense	\$ (820)	\$ (645)	-27%	\$ (3,149)	\$ (2,355)	-34%
Finance expense on the Preferred Share liability	(1,931)	(1,905)	-1%	(9,922)	(2,397)	-314%
Income (loss) from equity-accounted investments	1,117	(18)	NMF	1,611	817	97%
Gain on disposal of an equity-accounted investment	-	-	-%	-	525	-100%
Non-cash impairment of an equity-accounted investment	(3,390)	-	NMF	(3,466)	(4,778)	27%
Other	264	264	0%	802	795	1%
Other expense, net	\$ (4,760)	\$ (2,304)	-107%	\$ (14,124)	\$ (7,393)	-91%

During the three months ended December 31, 2023, the Corporation saw an increase in revenues over the three months ended December 31, 2022, from higher Newton revenues primarily due to an increase in Velocity adoption and lender contract renewals. However, headwinds continue to impact the Canadian housing market, especially as increased interest rates have decreased Canadian housing sales activity. Consequently, our funded mortgage volumes were flat during the three-month period and decreased during the year ended December 31, 2023, when compared to 2022's equivalent periods. The decrease in annual funded volumes has resulted in a decrease in revenues during the year ended December 31, 2023.

As the Corporation's operating expenses are largely fixed in nature and are not proportionate to changes in revenues, changes in the Corporation's revenues have a more pronounced impact to adjusted income, adjusted EBITDA and adjusted EBITDA margins. As such, these metrics have increased with higher revenues during the three months ended December 31, 2023 but have decreased during the year ended December 31, 2023, when compared to 2022's equivalent periods.

Income from operations during the three months ended December 31, 2023 increased from higher revenues and lower operating expenses, and decreased during the year ended December 31, 2023 from lower revenues, partly offset by lower operating expenses. The Corporation's operating expenses have decreased during the three months and year ended December 31, 2023 when compared to 2022, primarily due to:

- lower direct costs for commissions and expenses proportionate to funded volume;
- variances in advertising fund expenditures due to the timing of advertising campaigns; and
- lower professional fees, partially offset by higher personnel costs.

Net income decreased during the three months and year ended December 31, 2023, compared to the prior year periods. The changes over the previous year are primarily from period over period variances in revenue and other expenses. Other expenses increased during the three months and year ended December 31, 2023 primarily from period-over-period variances in Finance expense on the Preferred Share liability (refer to the Preferred Shares section), finance expense and impairment losses recognized for equity-accounted investments.

The Corporation recognized a non-cash impairment loss of \$3.5 million for the year ended December 31, 2023 (December 31, 2022—\$4.8 million), representing the difference between the carrying value of two of our investments (primarily Impact) and their estimated recoverable amounts. The Corporation identified the financial performance and its technological and market environments of these investments as indicators of impairment and determined the recoverable value of each investment based on its fair value less cost of disposal, an income-based approach whereby a present value technique is employed that takes into account estimated future cash flows based on assumptions that would be common to any market participant. This approach requires management to make estimates and assumptions about EBITDA, discount rates and perpetual growth rates (level 3 within the fair value hierarchy).

Free cash flow increased during the three months ended December 31, 2023 from higher adjusted cash flows from operations from higher income from operations and lower maintenance CAPEX; but decreased during the year ended December 31, 2023 from lower adjusted cash flows from operations from lower income from operations and higher maintenance CAPEX. Maintenance CAPEX has increased during the year ended December 31, 2023 due to the Corporation's continued recruitment and renewal efforts.

SUMMARY OF QUARTERLY RESULTS

Selected unaudited financial data published for our operations during the last eight quarters are as follows.

<i>(in thousands except per share amounts)</i>	Dec. 31, 2023	Sept. 30, 2023	Jun. 30, 2023	Mar. 31, 2023	Dec. 31, 2022	Sept. 30, 2022	Jun. 30, 2022	Mar. 31, 2022
Funded mortgage volumes ⁽¹⁾	14.2	17.7	14.8	9.8	14.0	19.4	21.8	16.1
Revenues	15,758	19,578	15,543	11,638	13,934	17,934	21,823	17,029
Income from operations	3,914	8,879	4,188	1,330	1,554	8,651	10,853	5,328
Adjusted EBITDA ⁽²⁾	6,507	10,116	5,158	2,639	3,031	9,396	13,391	6,240
Net (loss) income ⁽³⁾	(2,003)	5,271	(3,157)	(47)	(1,314)	29,381	6,709	(22,490)
Adjusted net income (loss) ⁽²⁾	1,775	3,115	1,660	198	(175)	2,822	5,268	1,082
Net (loss) income attributable to:								
Common shareholders ⁽³⁾	(2,008)	5,269	(3,161)	(57)	(1,327)	29,367	6,700	(22,679)
Non-controlling interests	5	2	4	10	13	14	9	189
Adjusted net income (loss) attributable to: ⁽²⁾								
Common shareholders	1,770	3,113	1,656	188	(188)	2,808	5,259	893
Non-controlling interests	5	2	4	10	13	14	9	189
Net (loss) earnings per Common Share:								
Basic	(0.04)	0.11	(0.07)	(0.00)	(0.03)	0.61	0.14	(0.50)
Diluted	(0.04)	0.11	(0.07)	(0.00)	(0.03)	0.61	0.14	(0.50)
Adjusted net earnings (loss) per Common Share: ⁽²⁾								
Diluted	0.04	0.06	0.03	0.00	(0.00)	0.06	0.11	0.02

(1) Funded mortgage volumes are presented in billions.

(2) Please see the Non-IFRS Financial Performance Measures section of this document for additional information.

(3) Net income for the three months and year ended December 31, 2023 includes \$1.9 million and \$9.9 million of non-cash finance expense on the Preferred Share liability, respectively (December 31, 2022 – \$1.9 million and \$2.4 million, respectively). The Preferred Share liability is revalued at the end of each reporting period to reflect our most recent outlook and forecast. Refer to the Preferred Shares section of this document.

Quarterly trends and seasonality

Funded mortgage volumes are subject to seasonal variances that move in line with the normal home buying season, which is typically highest from June through September. For the three months ended June 30 and March 31, 2023, revenues had decreased compared to the same prior year periods, attributable to a decrease in funded mortgage volumes from rising interest rates and a softening in the Canadian housing market. For the three months ended September 30 and December 31, 2023, revenues exceeded the prior year periods as funded volumes stabilized.

Income from operations and net income for the three months ended December 31, 2023 decreased over the three months ended September 30, 2023, primarily due to a decrease in revenues (driven by decreased funded mortgage volumes),

and higher operating expenses from higher advertising fund expenses due to the timing of advertising campaigns and higher share-based payments from an increase in the Corporation's share price for settlement of our outstanding restricted share units ("RSUs").

OUTLOOK

The information in this section is forward-looking and should be read in conjunction with the Cautionary Note Regarding Forward-Looking Information section.

In 2024, we will continue to focus on market penetration and expanding our network of mortgage brokers and franchises through targeted recruiting initiatives. Newton continues to focus on growing its submission volumes through Velocity, extending Velocity's delivery channels, and increasing its number of third-party users. This is demonstrated through the increase in the volume of funded mortgages from applications submitted through Velocity of 63% for the year ended December 31, 2023 when compared to 55% for the year ended December 31, 2022.

During the year ended December 31, 2023, Canadian mortgage interest rates continued to increase. We believe increased mortgage interest rates have contributed to a softening of the Canadian housing market, putting downward pressure on home values, sale transactions, and other lending activity from more stringent loan qualification requirements, resulting in 21% decrease in funded volumes in fiscal 2023 compared to fiscal 2022. Longer-term, management is anticipating that mortgage renewals and housing purchases will continue to be strong, and that overall housing demand will continue to exceed supply, and we are actively enhancing our broker recruitment activities. These efforts, combined with anticipated continued growth in Velocity adoption, are expected to mitigate near-term housing market headwinds.

Adjusted EBITDA margins have decreased during the year ended December 31, 2023 when compared to the previous year period, because the Corporation's general and administrative expenses are relatively fixed and independent of movements in revenues. As a result, a decrease in revenues results in a greater decrease in adjusted EBITDA margins. However, the three months ended December 31, 2023 saw a comparable adjusted EBITDA margin when compared to the prior year period, with the improvement in revenues during the fourth quarter of 2023. Management anticipates that adjusted EBITDA margins will continue to improve if revenues improve.

During the year ended December 31, 2023, the Corporation declared and paid cash dividends of \$0.12 per Common Share resulting in a dividend payment of \$5.8 million (December 31, 2022 – \$0.09 per Common Share for a total of \$4.4 million). In addition to maintaining a quarterly dividend, the Corporation expects that it will continue to reduce the Junior Credit Facility (defined herein) through repayments using its free cash flow and mandatory repayments utilizing cash received from the Club16 promissory note. Refer to the Capital Resources section for further details.

LIQUIDITY AND CAPITAL RESOURCES

BALANCE SHEET SUMMARY

See the Liquidity section below for information on the changes in cash and working capital deficiency.

<i>(in thousands, except shares outstanding)</i>	As at	
	December 31, 2023	December 31, 2022
Cash	\$ 5,614	\$ 9,214
Working capital deficiency	(10,616)	(11,851)
Total assets	218,107	223,937
Total loans and borrowings ⁽¹⁾	39,910	36,670
Total non-current liabilities	158,926	153,339
Total Preferred Share liability ⁽¹⁾	114,442	110,160
Shareholders' equity	25,697	31,958
Common Shares outstanding	48,227,238	48,352,731
Preferred Shares outstanding	26,774,054	26,774,054

(1) Net of debt issuance and transaction costs.

LIQUIDITY

<i>(in thousands, except shares outstanding)</i>	As at	
	December 31, 2023	December 31, 2022
Cash	\$ 5,614	\$ 9,214
Trade and other receivables	14,343	14,063
Prepaid expenses and deposits	2,003	3,171
Notes receivable	656	110
Accounts payable and accrued liabilities	(19,155)	(26,570)
Loans and borrowing ⁽¹⁾	(5,902)	(4,662)
Deferred contract liability ⁽¹⁾	(620)	(482)
Lease obligation ⁽¹⁾	(373)	(505)
Preferred Share liability ⁽¹⁾	(7,182)	(6,190)
Working capital deficiency	\$ (10,616)	\$ (11,851)

⁽¹⁾ Current portion.

Our capital strategy is aligned with our business strategy and is focused on ensuring that we have sufficient liquidity to fund our operations, service our debt obligations, fund future franchise recruiting opportunities and drive organic revenue growth to increase free cash flow.

Our principal sources of liquidity are cash generated from our business operations and borrowings under credit facilities. Our primary uses of cash are for operating expenses, franchise recruitment and support costs, debt repayment, and debt servicing costs. At this time, management expects to have sufficient liquidity to meet its short- and long-term objectives of meeting the Corporation's obligations as they come due.

As at December 31, 2023, we had a lower consolidated cash position and a lower net working capital deficit when compared to December 31, 2022. Our sources and uses of cash are described below.

The decrease in working capital deficit from the comparative period is primarily due to lower accounts payable and an increase in trade and other receivables due to timing of receipt of payments, partly offset by lower cash, a decrease in prepaid expenses and deposits due to utilization of outstanding prepaids, and a higher current portion of the Preferred Share liability. Our credit facilities are discussed in greater detail in the Capital Resources section. The Preferred Share liability is discussed further in the Preferred Shares section. While we have a working capital deficit, management anticipates that we have sufficient liquidity, as the Preferred Share liability represents a discounted estimate of the future Dividend Entitlements and will be paid from future cash flows.

Working capital may fluctuate from time to time based on seasonality or timing of the use of cash and cash resources to fund operations. The Corporation has credit facilities to support its operations and working capital needs and fluctuations. See the Capital Resources section. The Corporation's ability to maintain sufficient liquidity is driven by the DLC Group operations and by allocation of its resources.

As at December 31, 2023, we have several financial commitments (see Commitments under the Commitments and Contingencies section of this MD&A for further information), which will require that we have various sources of capital to meet the obligations associated with these commitments. The Corporation expects to have sufficient liquidity, and we expect that we will be able to fund these commitments through its existing financing and cash flows from operations.

SOURCES AND USES OF CASH

The following table is a summary of our consolidated statement of cash flow:

<i>(in thousands)</i>	Year ended December 31,	
	2023	2022
Cash provided by operating activities	\$ 17,086	\$ 15,873
Cash (used in) / provided by investing activities	(11,414)	9,100
Cash used in financing activities	(9,272)	(36,640)
Decrease in cash	(3,600)	(11,667)
Impact of foreign exchange on cash and cash equivalents	-	(5)
Cash, beginning of year	9,214	20,886
Cash, end of year	\$ 5,614	\$ 9,214

Operating activities

<i>(in thousands)</i>	Year ended December 31,	
	2023	2022
Cash flow provided by operating activities	\$ 17,086	\$ 15,873
Changes in non-cash working capital and other non-cash items	4,378	12,225
Cash provided by operations excluding changes in non-cash working capital and other non-cash items	\$ 21,464	\$ 28,098

Cash from operating activities, excluding non-working capital and other non-cash items, decreased during the year ended December 31, 2023 when compared to the prior year period, primarily from a decrease in income from operations from lower revenues driven by the decrease in funded mortgage volumes and increased operating expenses.

Investing activities

The cash used in investing activities for the year ended December 31, 2023 consisted primarily of investments in intangible assets of \$11.8 million, which included payments of \$3.4 million accrued at December 31 2022, partly offset by distributions from equity-accounted investments of \$0.3 million and proceeds on the disposal of intangible assets of \$0.1 million.

The cash provided by investing activities for the year ended December 31, 2022 consisted primarily of proceeds of \$16.5 million received from the Sale of Club16 and net distributions from and investment in equity-accounted investments of \$0.4 million, partly offset by investments in intangible assets of \$7.2 million and distributions paid to non-controlling interests of \$0.6 million.

Financing activities

Cash used in financing activities for the year ended December 31, 2023 consisted primarily of dividends paid to the Preferred Shareholders of \$5.6 million, dividends paid to Common Shareholders of \$5.8 million, repayments on the Senior Credit Facilities (defined herein) of \$5.5 million, lease payments of \$0.6 million, repurchases under the normal course issuer bid ("NCIB") of \$0.3 million, and repayments on the Junior Credit Facility (defined herein) of \$0.3 million, partly offset by draws on the Corporation's Senior Credit Facilities net of transactions costs of \$8.9 million.

Cash used in financing activities for the year ended December 31, 2022 consisted primarily of repayments on the Junior Credit Facility of \$26.1 million primarily from cash proceeds received from the Sale of Club16 (defined herein), cash paid for the Newton Acquisition of \$16.9 million, Interim Dividends paid to the Preferred Shareholders of \$10.7 million, repurchases of Common Shares under the SIB of \$6.7 million, debt repayments on the Senior Credit Facility of \$5.3 million (defined herein), dividends paid to Common Shareholders of \$4.4 million, repurchases of Common Shares under the NCIB of \$0.7 million, and lease payments of \$0.6 million. This is partly offset by net proceeds from the Senior Credit Facility of \$31.5 million (defined herein) and proceeds received from share options and warrants exercised of \$3.2 million. See the Capital Resources section for more details.

CAPITAL RESOURCES

Our capital structure is composed of total shareholders' equity, preferred shares, and loans and borrowings, less cash. The following table summarizes our capital structure as at December 31, 2023 and December 31, 2022.

<i>(in thousands)</i>	As at	
	December 31, 2023	December 31, 2022
Loans and borrowings, net of debt issuance costs	\$ 39,910	\$ 36,670
Less: cash	5,614	9,214
Net loans and borrowings	\$ 34,296	\$ 27,456
Preferred share liability	114,442	110,160
Shareholders' equity	\$ 25,697	\$ 31,958

Loans and borrowings

<i>(in thousands)</i>	As at	
	December 31, 2023	December 31, 2022
Revolving Facility	\$ -	\$ -
Term Facility	36,062	-
Acquisition Facility	-	26,076
Non-Revolving Term Loan ("DDTL") Facility	-	6,400
Junior Credit Facility	4,200	4,513
	40,262	36,989
Debt issuance costs	(352)	(319)
Total loans and borrowings	\$ 39,910	\$ 36,670

The Corporation's loans and borrowings consist of two senior term credit facilities (collectively, the "Senior Credit Facilities") and a junior term credit facility (the "Junior Credit Facility"). The facilities have a three-year term with maturity in December 2026. Quarterly financial covenants for all facilities include the requirement to maintain an adjusted total debt-to-EBITDA ratio of less than 2.75:1.00 and a fixed charged ratio greater than 1.10:1.00. As at December 31, 2023, the Corporation's adjusted total debt-to-EBITDA ratio and fixed charged coverage ratio were 1.31:1.00 and 1.61:1.00, respectively, and consequently, the Corporation was in compliance with all such covenants.

Senior Credit Facilities

The Senior Credit Facilities provides the Corporation with a \$15.0 million revolving working capital credit line (the "Revolving Facility"), a \$36.1 million term loan ("Term Facility"). The proceeds from the Term Facility were used to repay the outstanding debt under the Corporation's former revolving acquisition credit line (the "Acquisition Facility") and former DDTL Facility.

Borrowings under the Senior Credit Facilities are composed of floating-rate advances or Term CORRA advances. Floating-rate advances bear interest at a rate equal to prime plus 0.00% to 0.50%. Term CORRA advances bear interest at a rate determined at the time of their renewal plus a credit fee of 1.75% to 2.25%.

As at December 31, 2023, \$5.1 million of the balance outstanding on the Term Facility is classified as current (December 31, 2022—\$4.7 million).

Previous facility

Prior to the amended and restated TD credit facility agreement, the Corporation's Senior Credit Facilities consisted of three senior facilities, that provided the Corporation with a \$5,000 Revolving Facility; a \$34,000 Acquisition Facility; and a the DDTL Facility which was used to finance the SIB completed on January 11, 2022. Annual financial covenants for the facilities included the requirement to maintain an adjusted total debt-to-EBITDA ratio of less than 2.75:1.00 and an interest coverage ratio greater than 3.00:1.00.

Junior Credit Facility

Borrowings under the Junior Credit Facility are composed of floating-rate advances or Term CORRA advances. Floating-rate advances bear interest at a rate equal to prime plus 0.75% to 1.25%. Term CORRA advances bear interest at a rate determined at the time of their renewal plus a credit fee of 2.50% to 3.00%.

The Corporation is required to utilize the proceeds received on the Club16 note receivable towards repayment of the Junior Credit Facility. As at December 31, 2023, this amount is classified as current debt of \$0.8 million (December 31, 2022 - \$nil).

PREFERRED SHARES

The Corporation is authorized to issue an unlimited number of non-voting, non-convertible series 1, class "B" preferred shares (the "Preferred Shares"). The Preferred Shares are not publicly traded. The Preferred Shares are a liability as the Corporation has an unavoidable obligation to pay dividends on the Preferred Shares in perpetuity. The holders of the Preferred Shares (the "Preferred Shareholders") are entitled to dividends equal to 40% of Core Business Distributable Cash ("Dividend Entitlement"), as defined in the Preferred Share terms, which represents cash generated by Core Business Operations after spending what is required to maintain or expand the current asset base. Core Business Operations for these purposes excludes certain public company costs and cash flows associated with the Junior Credit Facility and the equity-accounted investment in Impact. The Preferred Shareholders are further entitled, in the event of a liquidation or winding-up of the Corporation's assets and property, or the sale of the Core Business Operations, to receive the amount equal to any accrued but unpaid Dividend Entitlement plus an amount equal to 40% of the net proceeds of any liquidation event of the sale of the Core Business Operations.

The Preferred Shares were initially measured at their fair value net of any directly-attributable transaction costs and are subsequently recognized at amortized cost. The fair value of the Preferred Shares was determined using an income approach based on the estimated future Dividend Entitlement of the Preferred Shareholders. The Preferred Share liability is revised for any changes in the estimated future Dividend Entitlement at the end of each reporting period using an income approach based on the initial discount rate applied (15.2%), the change in the time-value of money, and dividends paid. The change in the time-value of money is reflected as accretion expense. The change in the estimated future Dividend Entitlement is reflected as revaluation recovery or expense. The revaluation recovery or expense and accretion expense are non-cash items, recognized on the condensed consolidated statements of income within finance expense on the Preferred Share liability.

The Corporation pays interim monthly cash dividends ("Interim Dividends") to the Preferred Shareholders in an amount determined by the Board of the Corporation that represents a good-faith estimate of the monthly instalment of the Dividend Entitlement, which may be more or less than the actual Dividend Entitlement based on seasonality of cash flows. During the year ended December 31, 2023, the Corporation paid Interim Dividends of \$5.6 million to the Preferred Shareholders (December 31, 2022—\$10.2 million). The actual Dividend Entitlement attributable to Preferred Shareholders during the year ended December 31, 2023 was \$6.0 million (December 31, 2022—\$10.4 million), resulting in an increase of the Dividend Entitlement to the Preferred Shareholders as at December 31, 2023 of \$0.3 million, which is included in the Preferred Share liability.

A summary of activity in the period is as follows:

	Number of Preferred Shares	Amount (in thousands)
Balance at December 31, 2022 ⁽¹⁾	26,774,054	\$ 110,160
Dividends paid ⁽²⁾	-	(5,640)
Finance expense on the Preferred Share liability	-	9,922
Balance at December 31, 2023 ⁽¹⁾	26,774,054	\$ 114,442

(1) Net of transaction costs.

(2) During the year ended December 31, 2023, the Board of Directors passed a resolution to reduce the Dividend Entitlement for the year ended December 31, 2022, resulting in a reversal of \$0.2 million of the Dividend Entitlement payable as at December 31, 2022.

<i>(in thousands)</i>	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Accretion expense on the Preferred Share liability	\$ 4,418	\$ 4,272	\$ 17,226	\$ 19,454
Revaluation recovery on the Preferred Share liability	(2,487)	(2,367)	(7,304)	(17,057)
Finance expense on the Preferred Share liability	\$ 1,931	\$ 1,905	\$ 9,922	\$ 2,397

The accretion expense represents the change in the time-value of money at the initial discount rate applied (15.2%).

During the three months and year ended December 31, 2023, the Corporation recognized a revaluation recovery due to changes in our estimated future Dividend Entitlement, largely based on current market conditions.

SHARE CAPITAL

As of March 19, 2024 and December 31, 2023, the Corporation had 48,227,238 Common Shares outstanding (December 31, 2022—48,352,731) and 26,774,054 Preferred Shares outstanding (December 31, 2022—26,774,054).

As at March 19, 2023, there were no outstanding stock options or warrants.

Normal-course issuer bid

The Corporation implemented a NCIB on May 25, 2023. The NCIB has a twelve-month duration, which commenced on May 29, 2023 and ends the earlier of May 28, 2024 or the date on which the maximum number of Common Shares that can be acquired pursuant to the NCIB are purchased. Under the NCIB, the Corporation may purchase up to 1,000,000 Common Shares, representing approximately 2% of the issued and outstanding Common Shares as at May 23, 2023. Pursuant to the rules of the TSX, the maximum number of Common Shares that the Corporation may purchase under the NCIB in any one day is 1,000 Common Shares, based upon the average daily trading volume of the Common Shares on the TSX for the six-month period ended on April 30, 2023. The Corporation may also make one block purchase per calendar week which exceeds such daily purchase restriction, subject to the rules of the TSX. Any Common Shares purchased pursuant to the NCIB will be cancelled by the Corporation.

The Corporation implemented a previous NCIB on May 24, 2022. The prior NCIB had a twelve-month duration, which commenced on May 27, 2022 and ended on May 26, 2023. Under the previous NCIB, the Corporation was allowed to purchase up to 1,200,000 Common Shares.

During the year ended December 31, 2023, the Corporation made repurchases under the NCIBs of 125,493 Common Shares at an average price of \$2.46 per Common Share. The repurchased shares were cancelled and returned to treasury. The actual number of Common Shares purchased and the timing of any such purchases was determined by the Corporation and were made in accordance with the requirements of the Exchange. Purchases of Common Shares under the NCIB were completed using available working capital from time to time. Any shareholder may obtain, for no charge, a copy of the notice in respect of the NCIB filed with the Exchange by contacting the Corporate Secretary of the Corporation at 403-560-0821.

COMMITMENTS AND CONTINGENCIES

COMMITMENTS

The following table summarizes the payments due in the next five years and thereafter in respect to our contractual obligations. See notes 8, 11, 12, 13 and 23 of the financial statements for more information.

(in thousands)	Less than 1 year	1–3 years	4–5 years	After 5 years	Total
Accounts payable and accrued liabilities	\$ 19,155	\$ -	\$ -	\$ -	\$ 19,155
Loans and borrowings ⁽¹⁾	5,902	34,360	-	-	40,262
Long-term accrued liabilities	-	20	-	-	20
Leases ⁽²⁾	448	315	77	30	870
Preferred Share liability ⁽³⁾	7,182	20,418	18,034	69,095	114,729
	\$ 32,687	\$ 55,113	\$ 18,111	\$ 69,125	\$ 175,036

(1) Gross of debt issuance costs.

(2) Undiscounted lease payments.

(3) Discounted estimated future Dividend Entitlements, gross of transaction costs.

Service agreement

The Corporation has an agreement with a software development company to develop and support a customized mortgage application (“app”). The agreement is a related party transaction due to common management between the Corporation and the service provider. The service agreement was renewed in March 2023 with an initial expiry of March 2025. If the agreement is not terminated after the initial expiry, it automatically renews until March 2027.

Contingencies

In the normal course of operations, the Corporation may become involved in, named as a party to, or be the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions. The outcome of outstanding, pending, or future proceedings cannot be predicted with certainty. For claims where outcomes are not determinable, no provision for settlement has been made in the consolidated financial statements.

OFF-BALANCE SHEET ARRANGEMENTS

We did not have any off-balance sheet arrangements as at December 31, 2023 or March 19, 2024.

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

FINANCIAL INSTRUMENTS

Our financial risk management policies have been established to identify and analyze risks that we face, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. We employ risk management strategies to ensure that our risks and related exposures are consistent with our business objectives and risk tolerance levels. While the Board of Directors has the overall responsibility for our risk management framework, our management has the responsibility to administer and monitor these risks.

We are exposed in varying degrees to a variety of risks from the use of financial instruments, which mainly include cash, trade and other receivables, loans and borrowings, investments, and trade payables and accrued liabilities. Because of the use of these financial instruments, we are exposed to risks including market risk, credit risk and liquidity risk. This section describes our objectives, policies and processes for managing these risks and the methods used to measure them.

MARKET RISK

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is composed of interest rate risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. We are exposed to interest rate risk on our variable-rate loans and borrowings. A 1% change in the interest rates on the loans and borrowings would have a \$0.4 million decrease of income before tax for the year ended December 31, 2023 (December 31, 2022—\$0.5 million decrease of income before tax).

CREDIT RISK

As at December 31, 2023, \$0.2 million (December 31, 2022—\$0.3 million) of our trade receivables are greater than 90 days outstanding and total expected credit losses as at December 31, 2023 is \$0.3 million (December 31, 2022—\$0.3 million). A decline in economic conditions, or other adverse conditions, could lead to reduced revenue and gross margin, and could impact the collectability of accounts receivable. The Corporation mitigates this risk by monitoring economic conditions and managing its customer credit risk.

The Corporation also has a source of credit risk related to the note receivable from the sale of Club16. The Corporation has managed this credit risk through mandatory monthly payments which commenced on August 1, 2023. A decline in economic conditions, or other adverse conditions experienced by Club16, could impact the collectability of the Corporation's note receivable.

The Corporation's maximum exposure to credit risk, as related to certain financial instruments identified in the table below, approximates the carrying value of the assets of the Corporation's condensed consolidated statements of financial position.

<i>(in thousands)</i>	As at	
	December 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 5,614	\$ 9,214
Trade and other receivables	14,446	14,232
Notes receivable	1,326	1,350
	\$ 21,386	\$ 24,796

LIQUIDITY RISK

Liquidity risk is the risk that we will not meet our financial obligations as they fall due. We manage this risk by continually monitoring our actual and projected cash flows to ensure there is sufficient liquidity to meet our financial liabilities when they become due. See the Liquidity and Capital Resources section of this MD&A for further discussion on our liquidity risk.

The Corporation's objective when managing its capital is to safeguard its ability to continue as a going concern, so that it generates returns for shareholders, expands business relationships with stakeholders, and identifies risk and allocates its capital accordingly. There can be no guarantee that the Corporation will continue to generate sufficient cash flow from operations to meet required interest and principal payments. Further, the Corporation is subject to the risk that any of its existing indebtedness may not be able to be refinanced upon maturity or that the terms of such refinancing may not be as favorable as the terms of its existing indebtedness.

The credit facilities contain several financial covenants that require the Corporation to meet certain financial ratios and condition tests. A failure to comply with the obligations in the credit facilities could result in a default which, if not cured or waived, may permit acceleration of the repayment of the relevant indebtedness. If the repayments under the credit facilities were to be accelerated, there can be no assurance that the assets of the Corporation would be sufficient to repay that indebtedness in full.

BUSINESS RISKS AND UNCERTAINTIES

The following is a brief discussion of the factors which may have a material impact on our future business or financial performance. We are subject to several risks and uncertainties and those described below are not the only risks and uncertainties we face. Additional risks and uncertainties not currently known or which are currently deemed immaterial may also adversely impact future business or financial performance, and such impact may be material. Additional risk factors are also set out in our Annual Information Form dated March 19, 2024 (available on SEDAR+).

Given the nature of our investment activities, the results of operations and our financial condition are dependent upon the financial condition and performance of the businesses comprising our investments. The performance of these businesses can be affected by the general market conditions that affect a segment and by specific factors that impact the underlying businesses.

Canadian real estate market

The performance of the DLC Group is dependent upon the number of mortgage brokers working in DLC's franchise network and by the number and volume of mortgages brokered by such brokers. The number of mortgage brokers is in turn ultimately dependent on the health of the Canadian real estate market and the level of transactions therein, particularly in the residential segment. The Canadian real estate market is affected by changes in general and local economic conditions such as: regulatory changes, inflation, interest rates, employment levels, availability and cost of financing for home buyers, competitive and market demand dynamics in key markets, the supply of available new or existing homes for sale, and overall housing prices. Any change in such factors may put downward pressure on the Canadian real estate market, the number of mortgage brokers or the number and aggregate dollar value of mortgages brokered by them, any of which factors which could negatively impact the DLC Group Franchisees and their ability to pay franchise fees to the DLC Group.

Economic and political conditions

The Corporation is sensitive to general market and economic conditions in Canada and worldwide. These conditions include, among others, short-term and long-term interest rates, new regulations, inflation, fluctuations in debt and equity capital markets, levels of unemployment, consumer confidence and the general condition of the Canadian, North American and world economies. The Canadian residential real estate market also depends upon the strength of Canadian financial institutions, which are sensitive to changes in the general macroeconomic environment. Lack of available credit or lack of confidence in the financial sector could materially and adversely affect the Corporation's financial position. There can be no assurance that a change in economic conditions will not negatively affect the Corporation's financial position.

A host of factors beyond the Corporation's control could cause fluctuations in these conditions, including the political (regulatory) environment, extent and duration of public health orders, and acts or threats of war or terrorism which could have a material adverse effect on the Corporation's financial position.

Brand reputation

The DLC Group's results of operations and ability to grow are dependent in part upon its ability to maintain and enhance the value of the DLC Group's brands, consumers' connection to those brands, and consumers' and other stakeholders' positive relationships with its franchisees and brokers. The Corporation believes it has built the reputation of the DLC Group's brands on highly-personalized relationships between the mortgage broker and their customers. Any incident that erodes consumer affinity for the DLC Group could significantly reduce its value and damage the Corporation's business.

For multi-location franchise businesses such as the Corporation, the negative impact of adverse publicity relating to one broker, office or a limited number of franchises may extend far beyond the broker, office or franchise involved to affect some or all of the DLC Group's other mortgage brokers, offices or franchises. The risk of negative publicity is particularly great because the DLC Group is limited in the extent to which its franchises and mortgage brokers can be regulated on a real-time basis.

Lack of control over franchisees

The DLC Group's franchisees are independent business operators, and their mortgage brokers are usually independent contractors, and, as such, they are not employees of the DLC Group, and the Corporation does not exercise control over their day-to-day operations. There is a risk that franchisees may not successfully operate a mortgage brokerage business in a manner consistent with industry standards, or may not affiliate with effective mortgage brokers. If the franchisees or their mortgage brokers were to provide diminished quality of service to customers, the DLC Group's image and reputation may suffer materially and adversely affect the Corporation's results of operations. Additionally, franchisees and their mortgage brokers may engage or be accused of engaging in unlawful or tortious acts. Such acts, or the accusation of such acts, could harm the DLC Group's image, reputation and goodwill.

Adding DLC franchises / closure of DLC franchises

The DLC Group's ability to grow its revenue depends in part upon its ability to execute upon its growth strategy and maintain and grow its network of franchises (and the ability of franchisees to increase the number of mortgage brokers working at their franchises and to increase the number and volume of mortgages funded by each broker). If the DLC Group is unable to attract qualified franchisees and franchisees are unable to attract new mortgage brokers, the Corporation may be adversely affected. The growth of the DLC Group's franchise network and the number of mortgage brokers is somewhat dependent upon available mortgage brokers in desirable locations.

The closure, failure or downsizing of a franchise office could reduce the Corporation's revenues. Closure of a franchise office could be the result of, among other things, an aging franchisee being unable to sell or transfer his or her existing business to a new owner, a downturn in the economy or the closure or bankruptcy of a large industry in the city or town where the franchise operates. Any one of the above-mentioned factors could result in the loss of mortgage brokers, thus reducing the Corporation's revenues generated from mortgage fees.

Franchisee bad debts

DLC Group franchisees may suffer difficulties in paying their franchise fees and other obligations to the DLC Group in a timely manner or at all, including interest on unpaid amounts. Accounts receivable, and the allowance for doubtful accounts, may be significant. If franchisees were to default to a material extent on their franchise fees or other obligations, this could have a material adverse impact on the Corporation.

Changes in laws and regulations

The Corporation is subject to a variety of laws and regulations. Future changes in federal, provincial, and municipal laws or regulations could potentially significantly escalate the cost of complying with them, which could have a negative impact on the Corporation's financial results. There can be no assurance that the legal, taxation, and regulatory environment within which the Corporation operates will not be changed in a manner which adversely impacts the Corporation.

Specifically, the DLC Group is affected by mortgage lending regulations, which are established by the Government of Canada and various provincial governments. In recent years the Canadian government has made various changes to tighten such rules. These changes and any further restrictions to mortgage lending rules may adversely affect the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes. This in turn would adversely affect the real estate industry and put downward pressure on the number of mortgage brokers operating in the industry, and the number and volume of mortgages that they fund, which would have a negative impact the Corporation's business.

Information technology and systems

The Corporation and the business of the franchisees, including their ability to attract mortgage brokers, increasingly depends upon the use of sophisticated information technologies and systems (mobile and otherwise), including those utilized for communications, marketing, productivity, lead generation, transaction processing, business record keeping (employment, accounting, tax, etc.), procurement, call center operations and administrative systems. The operation of these technologies and systems is dependent, in part, upon third-parties, for which there are no assurances of continued or uninterrupted availability and support by the applicable third-party vendors on commercially reasonable terms. The Corporation and the franchisees also cannot assure that they will be able to continue to effectively operate and maintain

their information technologies and systems. In addition, the Corporation's information technologies and systems are expected to require refinements and enhancements on an ongoing basis, and the Corporation expects that advanced new technologies and systems will continue to be introduced. The Corporation may not be able to obtain such new technologies and systems, or to replace or introduce new technologies and systems as quickly as its competitors or in a cost-effective manner. Also, the Corporation may not achieve the benefits anticipated or required from any new technology or system, and the Corporation may not be able to devote financial resources to new technologies and systems in the future.

The Corporation may be threatened by cyber-attacks, breaches of network, computer viruses or other security breaches, human errors, sabotage, or other similar events, which could have an adverse impact on its activities, including system disruptions or breakdowns, loss of data, or intellectual property theft. This could also have an adverse impact on financial performance and cause considerable damage to reputation and could potentially result in legal actions. If the Corporation's information technology systems were to fail and were unable to recover in a timely way, the Corporation might be unable to fulfill critical business functions, which could have a material adverse effect on its business, financial condition, and results of operations.

Breach of privacy laws / release of confidential information

The Corporation and its franchisees maintain significant private and confidential information regarding their customers, and are dependent upon their operations and systems to keep all such information confidential. The intentional or unintentional release of customers' confidential private information by either the Corporation or its franchisees could materially and adversely affect their respective financial condition and results of operations.

Competition risk

Competition is based on price, quality of products and services, lead times and the range of services offered. Existing and/or new competitors may announce new products or enhancements that better meet the needs of customers or changing industry standards, or they may deeply discount the price of their products. Internet-based mortgage brokerage businesses are becoming more prevalent in the United States. The innovation in the space is constant, and disruptive business models could draw consumers away from traditional mortgage brokerages and put downward pressure on the number of mortgage brokers operating in the industry, which would adversely affect the Corporation.

Dependence on management and directors

The Corporation's success may depend upon the efforts, skill, and business contacts of key members of management and the Board. The Corporation's senior executives are instrumental in setting its strategic direction, operating its business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could materially adversely affect the Corporation.

The Corporation's senior executives have been in the mortgage brokerage business for many years. If appropriate management succession arrangements are not put in place, the Corporation could be adversely affected by the loss of the services of one or more of its senior executives.

From time to time, we will also need to identify and retain additional skilled management to efficiently operate our business. Recruiting and retaining qualified personnel is critical to our success, and there can be no assurance of our ability to attract or retain such personnel. If we are not successful in attracting and training qualified personnel, our ability to execute our business strategy could be affected, which could have a material and adverse impact on our profitability, results of operations and financial condition.

Common Shares sensitive to market fluctuations

The market price of the Common Shares has been and may continue to be subject to wide fluctuations in response to factors such as actual or anticipated variations in the Corporation's results of operations, changes in financial estimates by securities analysts, general market conditions and other factors. Market fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may adversely affect the market price of the Common Shares, even if the Corporation is successful in maintaining revenues, cash flows or earnings. This fluctuation in market price may adversely affect the Corporation's ability to raise additional

funds through the issuance of Common Shares, which could have a material and adverse impact on its profitability, results of operations and financial condition.

Potential conflicts of interest

Certain of our directors and officers are or may be, from time to time, involved in other financial investments and professional activities that may cause a conflict of interest with their duties to the Corporation. These include serving as directors, officers, advisors or agents of other public and private companies, including companies involved in similar businesses to the Corporation or companies in which we may invest; managing investment funds; purchasing and selling securities; or investing and providing management counselling for other clients. Such conflicts may result in a material and adverse effect on our results of operations and financial condition.

Seasonality and variable cycles in results

The Corporation's operating results generally vary from quarter to quarter because of seasonal fluctuations in our business. This seasonality is expected to continue, but there is no guarantee that operating results will follow past trends.

Complaints and litigation

The Corporation could, from time to time, be the subject of complaints or litigation from members of the public alleging poor service, misrepresentation or other legal issues. The Corporation could also be the subject of complaints or litigation from the franchisees or their mortgage brokers about franchise contract issues or other operational issues. Regardless of whether any claims against the Corporation or a franchisee are valid, or whether either is ultimately held liable, claims may be expensive to defend and may divert time and money away from operations and hurt the Corporation and/or the franchisees' performance. A judgment in excess of the Corporation's or the franchisees' insurance coverage for any claims could materially and adversely affect their respective financial condition and results of operations. Adverse publicity resulting from such allegations may materially affect revenue to brokers and therefore to the Corporation, whether the allegations are true or not, and whether the Corporation or a franchisee is ultimately held liable.

Ability to secure adequate financing

The Corporation may have ongoing requirements for capital to support its growth and may seek to obtain additional funds for these purposes through public or private equity, or through the incurrence of indebtedness. There are no assurances that the Corporation will be able to secure additional funding on acceptable terms or at an acceptable level. The Corporation's liquidity and operating results may be adversely affected if its access to capital markets or other sources of financing is hindered, whether as a result of a downturn in market conditions generally or to matters specific to the Corporation.

Dividend payment

The payment of dividends is at the discretion of our Board, and is dependent upon, among other things, financial performance, debt covenants, solvency tests, our ability to meet financial obligations as they come due, working capital requirements, future tax obligations, future capital requirements, the Canadian real estate market and other business and risk factors set forth in this MD&A.

Disclosure Controls and Procedures ("DC&P") and Internal Control Over Financial Reporting ("ICFR")

Based on their inherent limitations, disclosure controls and procedures and ICFR may not prevent or detect misstatements, and even those controls determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation. Failure to adequately prevent, detect and correct misstatements could have a material adverse effect on our business, financial condition, results of operations, cash flows, and our reputation.

RELATED PARTY TRANSACTIONS

Unless otherwise noted, related party transactions were incurred in the normal course of operations and are measured at the amount established and agreed upon by the related parties.

Property leases

The Corporation leases office spaces from related companies controlled by Chris Kayat and Gary Mauris, who are key members of the Corporation's management. During the year ended December 31, 2023, the total costs incurred under these leases were \$0.3 million (December 31, 2022—\$0.3 million). The lease terms mature in 2025.

The Corporation leases a two-bedroom condo in Toronto from a related company controlled by Chris Kayat and Gary Mauris, who are key members of the Corporation's management. During the year ended December 31, 2023, the total costs incurred under this lease was \$0.1 million (December 31, 2022—\$0.1 million). The lease term matures in 2025.

The expenses related to these leases are recorded in interest and depreciation and amortization expenses, and general and administrative expenses and are paid monthly; as such, no amount remains payable within the Corporation's financial statements.

Administrative services

The Corporation has entered into an agreement with a software development company to develop and support a customized mortgage app that is partly owned by key management of the Corporation (Chris Kayat and Gary Mauris). Total fees charged for services under this agreement for the year ended December 31, 2023 were \$ 0.9 million (December 31, 2022—\$1.1 million).

Other

The Corporation has an agreement with a shareholder of Impact (Keith Kostek). The agreement is related to liquidation rights, and if a liquidation event occurs, the Corporation has a possible commitment to pay \$1.0 million to this shareholder. As at December 31, 2023 a liability has been recognized for the current fair value of the liability of \$1.0 million (December 31, 2022—\$1.0 million).

Key management compensation

During the year ended December 31, 2023, \$0.3 million was paid to the Board of Directors, which is included within general and administrative expenses (December 31, 2022—\$0.3 million).

Key management personnel is comprised of members of the Board of Directors and key management of the Corporation. Their compensation is as follows:

<i>(in thousands)</i>	Year ended December 31,	
	2023	2022
Salaries and benefits	\$ 5,828	\$ 7,093
Share-based payments	(70)	(189)
	\$ 5,758	\$ 6,904

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of the Corporation's financial statements requires management to make certain estimates, judgments and assumptions that affect the amounts reported and disclosed in the financial statements and related notes. These include estimates that, by their nature, are uncertain, and actual results could differ materially from these estimates. The impacts of such estimates may require accounting adjustments based on future results. Revisions to accounting estimates are recognized in the period in which the estimates are revised.

Areas that require management to make significant estimates, judgments and assumptions are as follows.

Valuation of the Preferred Share liability

Management applies significant judgement to assess the fair value of the Preferred Share liability. Significant assumptions used in determining the fair value of the investment in the Preferred Share liability include the determination of future revenues and cash flows, and the discount rate. The estimates and assumptions used in determining the Preferred Share liability are subject to uncertainty, and if changed, could significantly differ from those recognized in the financial statements.

Valuations of equity-accounted investments

Equity-accounted investments are assessed for impairment when indicators of impairment are identified, by comparing the carrying amount of each investment to its recoverable amount, which is calculated as the higher of the CGU's fair value less cost of disposal or its value in use. If impairment is identified, the Corporation's carrying value of the equity-accounted investment is reduced to its fair value. The reduction is first applied against the Corporation's goodwill with any remaining balance applied against the equity-accounted investments' intangible assets.

Intangible assets

Management has concluded that the DLC Group brand names have an indefinite useful life. This conclusion was based on many factors, including the Corporation's ability to continue to use the brands and the indefinite period over which the brand names are expected to generate positive cash flow. The determination that the brands have an indefinite useful life involves judgement, which could have an impact on the amortization charge recorded in the consolidated statement of income. For each class of intangible assets with finite lives, management must decide the period over which it will consume the assets' future economic benefits. The determination of a useful-life period involves judgement, which could have an impact on the amortization charge recorded in the consolidated statement of income.

Impairment of goodwill and intangible assets

Goodwill and indefinite-life intangible assets are not amortized. Goodwill and indefinite-life intangible assets are assessed for impairment on an annual basis, or when indicators of impairment are identified, by comparing the carrying amount of the asset to its recoverable amount, which is calculated as the asset's fair value less cost of disposal. Fair value less cost of disposal is an income-based approach whereby a present value technique is employed that takes into account estimated future cash flows based on assumptions that would be common to any market participant. This approach requires management to make estimates and assumptions about operating margins, discount rates and tax rates. Future cash flows are based on management's projections for a five-year period with a perpetual growth rate applied thereafter. The discount rate is based on the weighted-average cost of capital ("WACC") for comparable companies operating in similar industries as the applicable CGU. The WACC is an estimate of the overall required rate of return on an investment for both debt and equity owners and serves as the basis for developing an appropriate discount rate.

Finite-life intangible assets are assessed for indicators of impairment at the end of each reporting period. If indicators of impairment exist, the Corporation assesses whether the carrying amount of the asset is considered recoverable. An impairment loss is recorded when the carrying value exceeds its recoverable amount, which is calculated as the asset's fair value less cost of disposal. See note 7 of the Financial Statements.

ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements prepared for the year ended December 31, 2022.

SELECTED ANNUAL FINANCIAL INFORMATION

The following table summarizes selected annual information for 2023, 2022, and 2021.

<i>(in thousands, except per share amounts)</i>	Year ended December 31,		
	2023	2022	2021
Consolidated Statement of Income (Loss):			
Revenues	\$ 62,517	\$ 70,720	\$ 78,816
Income (loss) attributable to Common Shareholders	43	12,061	(5,508)
Earnings (loss) per Common Share:			
Basic	\$ -	\$ 0.25	\$ (0.12)
Diluted	\$ -	\$ 0.25	\$ (0.12)
Consolidated Statement of Financial Position Data:			
Total assets	\$ 218,107	\$ 223,937	\$ 253,925
Total long-term financial liabilities	\$ 143,816	\$ 139,002	\$ 143,737

Comparative 2022 year

Revenues decreased in the current year over the previous year due to decreased funded mortgage volumes. Total assets decreased in the current year over the previous year primarily due to the reduction in cash from cash used in investing and financing activities (see the Sources and Uses of Cash section for further details). Long-term financial liabilities increased primarily from an increase to the Preferred Share liability and an increase to loans and borrowings from amounts drawn on the Senior Credit Facilities (see the Capital Resources section for further details).

Comparative 2021 year

Revenues decreased in the current year compared to the year ended 2021 due to decreased funded mortgage volumes. Total assets decreased in the current year over the previous year primarily due to the reduction in equity-accounted investments from the Sale of Club16 and a decrease in cash primarily from cash used in financing activities and decreased cash provided by operating activities (see the Sources and Uses of Cash section for further details). Long-term financial liabilities decreased primarily from a decrease in other long-term liabilities from payment of the RSU liability outstanding in 2021 and a decrease in loans and borrowings from repayments on the Junior Credit Facility offset by amounts drawn on the Senior Credit Facilities (see the Capital Resources section for further details).

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

Certain statements in this document constitute forward-looking information under applicable securities legislation. Forward-looking information typically contains statements with words such as “anticipate,” “believe,” “estimate,” “will,” “expect,” “plan,” or similar words suggesting future outcomes or an outlook. Forward-looking information in this document includes, but is not limited to:

- The 2024 outlook and strategic objectives;
- Our business plan and growth strategy;
- Adding additional DLC Group franchises through increased recruiting activities;
- Newton growing its submission volumes through Velocity, extending Velocity’s delivery channels and increasing its number of third-party users;
- Developing new innovative products to increase program offerings;
- The expectation that increases in mortgage interest rates will continue to negatively impact funded mortgage volumes;
- Our expectation that until interest rates decrease, there will be continued downward pressure on home values and sale transactions;
- Our expectation that housing demand will continue to exceed supply;
- Our anticipation that mortgage renewals and housing purchases will continue to be strong;
- The expectation that recruiting initiatives and anticipated growth in Velocity will partially mitigate headwinds from changes in mortgage interest rates impacting funded mortgage volumes;
- Our expectation that our adjusted EBITDA margins will continue to improve throughout fiscal 2024, if revenues increase;
- Our expectation that the Corporation will continue to reduce the Junior Credit Facility through repayments from free cash flow;
- Our expectation that the Corporation will continue to pay a quarterly dividend to Common Shareholders;
- Management’s ability to adjust cost structures to improve liquidity and cash flow to meet their expectations to have sufficient liquidity to meet our obligations as they come due.

Such forward-looking information is based on many estimates and assumptions, including material estimates and assumptions, related to the factors identified below that, while considered reasonable by the Corporation as at the date of this MD&A considering management’s experience and perception of current conditions and expected developments, are inherently subject to significant business, economic and competitive uncertainties, and contingencies.

Known and unknown factors could cause actual results to differ materially from those projected in the forward-looking statements. Such factors include, but are not limited to:

- Changes in tax rates and legislation;
- Changes in operating, general and administrative, and other costs;
- Changes in interest rates;
- General business, economic and market conditions;
- The extent and duration of public health issues that could have an impact on economic or market conditions;
- Our ability to obtain services and personnel in a timely manner and at an acceptable cost to carry out our activities;
- The DLC Group's ability to maintain its existing number of franchisees and add additional franchisees;
- Newton's ability to grow its connectivity platform submission volumes and number of third-party users;
- Changes in Canadian mortgage lending and mortgage brokerage laws and regulations;
- Material changes in the aggregate Canadian mortgage lending marketplace;
- Changes in the fees paid for mortgage brokerage services in Canada;
- Changes in the regulatory framework for the Canadian housing and lending sectors;
- Demand for the Corporation's products remaining consistent with historical demand;
- Our ability to realize the expected benefits of our investment in Impact;
- The uncertainty of estimates and projections relating to future revenue, taxes, costs, and expenses;
- Changes in, or in the interpretation of, laws, regulations or policies;
- The outcome of existing and potential lawsuits, regulatory actions, audits, and assessments; and
- Other risks and uncertainties described elsewhere in this document and in our other filings with Canadian securities authorities.

Many of these uncertainties and contingencies may affect our actual results and could cause actual results to differ materially from those expressed or implied in any forward-looking statements made by, or on behalf of, us. Readers are cautioned that forward-looking statements are not guarantees of future performance. All forward-looking statements made in this MD&A are qualified by these cautionary statements. The foregoing list of risks is not exhaustive. The forward-looking information contained in this document is made as of the date hereof and, except as required by applicable securities laws, we undertake no obligation to update publicly or revise any forward-looking statements or information, whether because of new information, future events or otherwise.

INTERNAL CONTROLS OVER FINANCIAL REPORTING AND DISCLOSURE CONTROLS

The Corporation takes all necessary steps to ensure that material information regarding the Corporation's reports filed or submitted under securities legislation fairly presents the financial information of the Corporation. Management, including the Executive Chairman & Chief Executive Officer ("EC & CEO") and the Chief Financial Officer ("CFO") are responsible for establishing, maintain and evaluating disclosure controls and procedures ("DC&P") and internal controls over financing reporting ("ICFR"). Management has used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Controls – Integrated Framework (2013).

There are inherent limitations in all control systems, such that they can provide only reasonable – not absolute – assurance that all control issues, misstatement, or instances of fraud, if any, within the Corporation have been detected.

During the year ended December 31, 2023, there have not been any changes in the Corporation's ICFR that has materially affected or is reasonably likely to materially affect, the Corporation's ICFR.

DC&P

DC&P are designed to provide reasonable assurance that the information required to be disclosed in documents filed or submitted under securities legislation are recorded, processed, summarized and reported on a timely basis. Management (including the EC & CEO and CFO) have assessed the design and effectiveness of our DC&P as at December 31, 2023 and have concluded that our DC&P are effective.

ICFR

Management (including the EC & CEO and CFO) has designed ICFR to provide reasonable assurance that the Corporation's financial reporting is reliable and that the Corporation's interim financial statement were prepared in accordance with IFRS. In making its assessment, management has used the Committee of Sponsoring Organizations of the Treadway Commission Framework in Internal Controls – Integrated Framework (2013) to evaluate the design and effectiveness of internal controls over financial reporting. Based on our evaluation, management has concluded that our ICFR were effective as at December 31, 2023.

NON-IFRS FINANCIAL PERFORMANCE MEASURES

ADJUSTED EBITDA

Adjusted EBITDA is defined as earnings before finance expense, taxes, depreciation, amortization, and any unusual, non-operating, certain non-cash or one-time items. The Corporation considers its main operating activities to be the business of mortgage brokerage franchising and mortgage broker data connectivity services across Canada, and management of its operating subsidiaries.

The non-cash adjustments are expenses incurred during the period which are not the result of the main operating activities of the Corporation or are related to the financing of these activities. Other expenses are unusual, non-cash or one-time insignificant items included within "other income" on the consolidated statements of income that are not related to the main operating activities.

While adjusted EBITDA is not a recognized measure under IFRS, management believes that it is a useful supplemental measure as it provides management and investors with an insightful indication of the performance of the Corporation. Adjusted EBITDA is an assessment of its normalized results and cash generated by its main operating activities, prior to the consideration of how these activities are financed or taxed, as a facilitator for valuation and a proxy for cashflow. Management applies adjusted EBITDA in its operational decision making as an indication of the financial performance of its main operating activities.

Investors should be cautioned, however, that adjusted EBITDA should not be construed as an alternative to a statement of cash flows as a measure of liquidity and cash flows. The methodologies we use to determine adjusted EBITDA may differ from those utilized by other issuers or companies and, accordingly, adjusted EBITDA as used in this MD&A may not be comparable to similar measures used by other issuers or companies. Readers are cautioned that adjusted EBITDA should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of an issuer's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Adjusted EBITDA margin is defined as adjusted EBITDA divided by revenue.

The following table reconciles adjusted EBITDA from income before income tax, which is the most directly-comparable measure calculated in accordance with IFRS:

<i>(in thousands)</i>	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
(Loss) income before income tax	\$ (846)	\$ (750)	\$ 4,187	\$ 18,993
Add back:				
Depreciation and amortization	939	971	3,787	3,985
Finance expense	820	645	3,149	2,355
Finance expense on the Preferred Share liability ⁽¹⁾	1,931	1,905	9,922	2,397
	2,844	2,771	21,045	27,730
Adjustments:				
Share-based payments expense (recovery)	263	215	(70)	(104)
Promissory note income	(35)	(49)	(151)	(49)
Foreign exchange loss	10	40	36	79
Loss on contract settlement	9	67	67	115
Gain on disposal of equity-accounted investment	-	-	-	(525)
Non-cash impairment of equity-accounted investments	3,390	-	3,466	4,778
Other income ⁽²⁾	26	(13)	27	34
Adjusted EBITDA ⁽³⁾	\$ 6,507	\$ 3,031	\$ 24,420	\$ 32,058

(1) The Corporation recognized a lower revaluation recovery on the Preferred Share liability during the year ended December 31, 2023, compared to the previous year period. Refer to the Preferred Shares section for further details.

(2) Other expense in the three months and year ended December 31, 2023 relates to a loss on the disposal of intangible assets. Other (income) expense for the three months ended December 31, 2022 relates to a gain on disposal of a lease and gain on disposal of an intangible asset; the year ended December 31, 2022 also included acquisition, integration and restructuring costs.

(3) Amortization of franchise rights and relationships of \$1.2 million and \$4.9 million for the three months and year ended December 31, 2023, respectively (December 31, 2022 – \$0.9 million and \$3.3 million) is classified as a charge against revenue, and has not been added back for adjusted EBITDA.

FREE CASH FLOW

Free cash flow represents how much cash a business generates after spending what is required to maintain or expand its current asset base. Free cash flow attributable to common shareholders represents the cash available to the Corporation for general corporate purposes, including: repayments on our credit facilities, investment in growth capital expenditures, return of capital to common shareholders through the repurchases of Common Shares and discretionary payment of dividends to common shareholders, and cash to be retained by the company. This is a useful measure that allows management and users to understand the cash available to enhance shareholder value.

The other adjustments are expenses incurred during the period which are not the result of the main operating activities of the Corporation, or are related to the financing of these activities. Other one-time items included within other expense adjustments are insignificant items included within “other income” on the condensed consolidated statements of income that are not related to the main operating activities.

While free cash flow is not a recognized measure under IFRS, management believes that it is a useful supplemental measure as it provides management and investors with an insightful indication of the funds generated by the main operating activities that are available to the Corporation for use in non-operating activities. Free cash flow is determined by adjusting certain investing and financing activities. Investors should be cautioned, however, that free cash flow should not be construed as an alternative to a statement of cash flows as a measure of liquidity and cash flows. The methodologies we use to determine free cash flow may differ from those utilized by other issuers or companies and, accordingly, free cash flow as used in this MD&A may not be comparable to similar measures used by other issuers or companies. Readers are cautioned that free cash flow should not be construed as an alternative to net income determined in accordance with IFRS as indicators of an issuer's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

The following table reconciles free cash flow from cash flow from operating activities, which is the most directly-comparable measure calculated in accordance with IFRS:

<i>(in thousands)</i>	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Cash flow from operating activities	\$ 3,433	\$ (1,300)	\$ 17,086	\$ 15,873
Changes in non-cash working capital and other non-cash items	1,426	4,247	4,378	12,225
Cash provided from operations excluding changes in non-cash working capital and other non-cash items	4,859	2,947	21,464	28,098
Adjustments:				
Distributions from equity-accounted investees ⁽¹⁾	46	50	321	677
Maintenance CAPEX	(680)	(1,212)	(6,719)	(5,629)
Lease payments ⁽¹⁾	(126)	(157)	(602)	(610)
Loss on contract settlement	9	67	67	115
Other non-cash items ⁽²⁾	(89)	(13)	(88)	(155)
	4,019	1,682	14,443	22,496
Free cash flow attributable to Preferred Shareholders ⁽³⁾	(1,984)	(959)	(6,984)	(10,332)
Free cash flow attributable to common shareholders	\$ 2,035	\$ 723	\$ 7,459	\$ 12,164

(1) Comparative amounts presented reflect the Corporation's Common Shareholders' proportion and exclude amounts attributed to Newton's NCI holders.

(2) Other non-cash items for the three months and year ended December 31, 2023 represent the non-cash impairment of equity-accounted investees, foreign exchange loss and promissory note income. The three months ended December 31, 2022 includes a gain on disposal of a lease and gain on disposal of an intangible asset; the year ended December 31, 2022 also includes the Newton NCI portion of cash provided from operations.

(3) Free cash flow attributable to the Preferred Shareholders is determined based on free cash flow of the Core Business Operations (as defined in the Preferred Shares section of this document).

ADJUSTED NET INCOME AND ADJUSTED EPS

Adjusted net income and Adjusted EPS are defined as net income before any unusual or non-operating items such as foreign exchange, fair value adjustments, finance expense on the Preferred Share liability, adjusted net income from the Core Business Operations attributable to the Preferred Shareholders, and one-time non-recurring items. Other one-time items included within other expense adjustments are insignificant items included within "other income" on the condensed consolidated statements of income that are not related to the main operating activities.

While adjusted net income is not a recognized measure under IFRS, management believes that it is a useful supplemental measure as it provides management and investors with an insightful indication of the operational performance of the Corporation by eliminating certain non-recurring items, adjusting for the net income attributable to the Preferred Shareholders, and excluding the finance expense on the Preferred Share liability. Management applies adjusted net income in its operational decision making as an indication of the results and cash generated by the main operating activities, after consideration of how these activities are financed and taxed. Adjusted net income is used to determine adjusted EPS (defined as adjusted net income attributable to common shareholders on a per-share basis).

Investors should be cautioned, however, that adjusted net income should not be construed as an alternative to net income determined in accordance with IFRS as an indicator of an issuer's performance or to cash flows from operating, investing and financing activities as a measure of liquidity and cash flows. The methodologies we use to determine adjusted net income may differ from those utilized by other issuers or companies and, accordingly, adjusted net income as used in this MD&A may not be comparable to similar measures used by other issuers or companies.

The following table reconciles adjusted net income from net income, which is the most directly-comparable measure calculated in accordance with IFRS:

<i>(in thousands)</i>	Three months ended December 31,		Year ended December 31,	
	2023	2022	2023	2022
Net (loss) income	\$ (2,003)	\$ (1,314)	\$ 64	\$ 12,286
Adjustments:				
Gain on sale of an equity-accounted investment	-	-	-	(525)
Non-cash impairment of equity-accounted investments	3,390	-	3,466	4,778
Foreign exchange loss	10	40	36	79
Finance expense on the Preferred Share liability ⁽¹⁾	1,931	1,905	9,922	2,397
Loss on contract settlement	9	67	67	115
Promissory note interest income	(35)	(49)	(151)	(49)
Other expense (income) ⁽²⁾	26	(13)	27	34
Income tax effects of adjusting items	(3)	(4)	(7)	(22)
	3,325	632	13,424	19,093
Income attributable to Preferred Shareholders ⁽³⁾	(1,550)	(807)	(6,676)	(10,096)
Adjusted net income (loss)	1,775	(175)	6,748	8,997
Adjusted net income (loss) attributable to common shareholders	1,770	(188)	6,727	8,772
Adjusted net income attributable to non-controlling interest	5	13	21	225
Diluted adjusted earnings per Common Share	\$ 0.04	\$ (0.00)	\$ 0.14	\$ 0.18

- (1) The Preferred Share liability is revalued at the end of each reporting period to reflect our most recent outlook and forecast. Refer to the Preferred Shares section of this document.
- (2) Other expense in the three months and year ended December 31, 2023 relates to a loss on the disposal of intangible assets. Other (income) expense for the three months ended December 31, 2022 relates to a gain on disposal of a lease and gain on disposal of an intangible asset; the year ended December 31, 2022 also included acquisition, integration and restructuring costs.
- (3) Adjusted net income attributable to the Preferred Shareholders is determined based on adjusted net income of the Core Business Operations (as defined in the Preferred Shares section of this document).